

<b>Meeting:</b>	<b>Audit and governance committee</b>
<b>Meeting date:</b>	<b>Tuesday 28 January 2020</b>
<b>Title of report:</b>	<b>2019/20 external audit plan</b>
<b>Report by:</b>	<b>Chief finance officer</b>

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose and summary**

To review and agree the external auditor's audit plan for 2019/20.

The external audit of Herefordshire Council's statement of accounts for 2019/20 is required to be completed before the 31 July 2020, achieving this regulatory deadline is reflected in the audit plan attached at Appendix 1.

## **Recommendation(s)**

**That:**

- (a) subject to any recommendations the committee wish to make to the external auditor, the proposed external audit plan 2019/20 at appendix 1 be approved; and**
- (b) the committee determine any recommendations it wishes to make to maximise the value of the combined internal and external audit process.**

## Alternative options

1. There are no alternative options to approving an external audit plan. The audit plan must meet statutory requirements, however it is open to the committee to identify any additional areas of risk they wish the external auditors to consider and to recommend additional actions to maximise the value of the combined internal and external audit process.

## Key considerations

2. The constitution provides that the audit and governance committee will:
  - Review and agree the external auditor's annual plan and receive regular update reports on progress.
  - To comment on the scope and depth of external audit work and to ensure it gives value for money.
  - Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.
3. Attached as appendix 1 is the external audit plan for the audit of the 2019/20 statement of accounts. The 2019/20 external audit aims to complete by the statutory deadline of 31 July 2020. Interim audit visits will take place in February and March with a final visit in June and July.
4. The appendix shares the audit approach, the focus of external audit work and the preparation work requirements.
5. Significant risks identified, requiring special audit consideration and procedures to address the likelihood of a material financial statement error, remain the same as in prior years and are presumed risks for all Grant Thornton clients, being:-
  - The valuation of land and buildings
  - The valuation of the net pension fund liability
  - The management override of controls
6. External audit will respond to these significant risks by:-
  - evaluate the design effectiveness of management controls over journals
  - analyse the journals listing and determine the criteria for selecting high risk unusual journals
  - test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
  - gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
  - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions
  - evaluate management's processes and assumptions for the calculation of the valuation estimate, the instructions issued to valuation experts and the scope of their work
  - evaluate the competence, capabilities and objectivity of the valuation expert
  - write to the valuer to confirm the basis on which the valuation was carried out

- challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding
  - test revaluations made during the year to see if they had been input correctly into the council's asset register
  - evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end
  - update our understanding of the processes and controls put in place by management to ensure that the council's pension fund net liability is not materially misstated and evaluate the design of the associated controls
  - evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
  - assess the competence, capabilities and objectivity of the actuary who carried out the council's pension fund valuation
  - assess the accuracy and completeness of the information provided by the council to the actuary to estimate the liability
  - test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
  - undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
7. Significant findings on the areas above, as well as any other significant matters arising from the audit, will be communicated in the external audit findings report.
8. External audit planning materiality is proposed at £6.7m (£10m in 2018/19), which equates to 1.8% of prior year gross expenditure for the year. Uncorrected omissions or misstatements other than those which are 'clearly trivial' (proposed at £0.3m, £0.5m in 2018/19) remain requiring to be reported to those charged with governance.
9. The external audit plan confirms the approach to assessing if the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the value for money conclusion. The external audit risk assessment regarding arrangements to secure value for money have identified the following significant risks:
- Financial sustainability and with particular reference to looked after children.
  - Management of the capital programme.
  - Governance arrangements and how the council has responded to political change.
10. To reach a value for money conclusion external audit will consider:-
- arrangements for managing and reporting financial resources
  - whether the financial position leads to material uncertainty about going concern
  - review related disclosures in the financial statements
  - how the council has responded to new policies being implemented
  - consider the governance arrangements of new areas of decision making
  - the on-going development of NMiTE, from the council's accountable body role and the governance arrangements of any capital projects the council develops in support of the provider of higher education.
11. The committee is asked to consider whether there are any comments it would like to make with reference to the external audit plan. Progress against the plan will be reported at future audit and governance committee meetings.

## Community impact

12. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

## Equality duty

13. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
14. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision regarding a proposed plan of action for future audit work, we do not believe that it will have an impact on our equality duty.

## Resource implications

15. The proposed external audit fee remains at £96k for 2019/20, additional fees have been raised in prior years due to additional external audit being undertaken. External audit assume that the council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit.
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements.
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

16. Auditors must demonstrate increased scepticism, challenge and to undertake additional and more robust testing through additional audit work. External audit are currently considering the likely additional fee requirement as a result of this for 2019/20. This is due to the need to meet the expectations of the Financial Reporting Council with regard to audit quality and local government financial reporting. The proposed work and fee for 2019/20 at the planning stage, set out in the appendix, is supported by audit working paper requirements and the internal year-end timetable which identifies key tasks, nominated internal contact and deadline dates.

## **Legal implications**

17. The Accounts and Audit Regulations 2015 requires the council to produce and publish an annual Statement of Accounts in accordance with the regulations and “proper practice”, Section 21 of the Local Government Act 2003 defines “proper practice” for this purpose to be the CIPFA Code of Practice on Local Authority Accounting (The Code) for the relevant year. The Code specifies the principles, practices, format and content required in the preparation of the Statement of Accounts.

## **Risk management**

18. The risk is that the plan does not achieve the conclusion of the audit work within the statutory deadlines. The attached plan details how interim work, planning and resourcing will mitigate this risk.

## **Consultees**

19. None

## **Appendices**

- Appendix 1      2019/20 external audit plan

## **Background papers**

- None identified